

GANNON CENTER FOR
COMMUNITY MENTAL HEALTH --
DUBUQUE OFFICE

FINANCIAL STATEMENTS

JUNE 30, 2004
AND
INDEPENDENT AUDITORS' REPORTS

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE
JUNE 30, 2004

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GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Lou Baal	President	May 2005
Barb Potts	Vice-President	May 2006
Jan Kunau	Secretary	May 2007
Marilyn Osterhaus	Treasurer	May 2006

DUBUQUE CO:

Jim Waller	Member	May 2005
David Berry	Member	May 2007
Nancy Zachar Fett	Member	May 2005
Rima Britt	Member	May 2007

JACKSON CO:

Steven Kahler	Member	May 2005
Penny Percy	Member	May 2006
Jack Willey	Member	May 2005

CLINTON CO:

Ruthann Papke	Member	May 2006
Sr. Ruth Cox	Member	May 2005
Lewis Todtz	Member	May 2006

Independent Auditors' Report

To the Board of Directors
Gannon Center for Community Mental Health -- Dubuque Office

We have audited the accompanying financial statements, listed in the table of contents of this report, of Gannon Center for Community Mental Health -- Dubuque Office (a nonprofit organization), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gannon Center for Community Mental Health -- Dubuque Office at June 30, 2004, and the results of its operations and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2005, on our consideration of Gannon Center for Community Mental Health -- Dubuque office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa
January 7, 2005

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

Assets	Unrestricted		
	Current	Property and Equipment	Total
Cash	\$ 86,535	\$ -0-	\$ 86,535
Accounts receivable, patient services, less allowance for doubtful accounts \$ 89,900	370,791	-0-	370,791
Prepaid expenses	30,342	-0-	30,342
Grants receivable	68,234	-0-	68,234
Due from affiliate	4,710	-0-	4,710
Property and Equipment:			
Office furniture and equipment	-0-	342,627	342,627
Leasehold improvements	-0-	4,677	4,677
Accumulated depreciation	-0-	(288,847)	(288,847)
Total Assets	<u>\$ 560,612</u>	<u>\$ 58,457</u>	<u>\$ 619,069</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 16,501	\$ -0-	\$ 16,501
Self funded dental insurance deficit	46,516	-0-	46,516
Accrued salaries	118,870	-0-	118,870
Compensated absences	178,696	-0-	178,696
Total Liabilities	<u>\$ 360,583</u>	<u>\$ -0-</u>	<u>\$ 360,583</u>
Net Assets - Undesignated	\$ 200,029	\$ 58,457	\$ 258,486
Net Assets - Board Designated	-0-	-0-	-0-
Total Net Assets	<u>\$ 200,029</u>	<u>\$ 58,457</u>	<u>\$ 258,486</u>
Total Liabilities and Net Assets	<u>\$ 560,612</u>	<u>\$ 58,457</u>	<u>\$ 619,069</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

		Unrestricted	
		Property and Equipment	Total
	Current		
<u>PUBLIC SUPPORT AND REVENUE</u>			
<u>Public Support:</u>			
Homeless Grant	\$ 18,923	\$ -0-	\$ 18,923
School-Based Youth Program Grant	106,445	-0-	106,445
Community Partnership Grant	4,185	-0-	4,185
Community Mental Health Services			
Block Grant	37,015	-0-	37,015
DECAT Grant	88,820	-0-	88,820
Dubuque Racing Association Grant	15,000	-0-	15,000
Rural Health Grant	13,291	-0-	13,291
McKesson Grant	9,000	-0-	9,000
Jail Diversion Grant	187,319	-0-	187,319
Other	2,790	-0-	2,790
Total Public Support	<u>\$ 482,788</u>	<u>\$ -0-</u>	<u>\$ 482,788</u>
<u>Revenue:</u>			
Patient and other fees	\$ 2,594,630	\$ -0-	\$ 2,594,630
Consultation and education	49,570	-0-	49,570
Interest	261	-0-	261
Other	30,812	-0-	30,812
Management & personnel costs			
reimbursement	393,481	-0-	393,481
Total Revenue	<u>\$ 3,068,754</u>	<u>\$ -0-</u>	<u>\$ 3,068,754</u>
Total Public Support			
and Revenue	<u>\$ 3,551,542</u>	<u>\$ -0</u>	<u>\$ 3,551,542</u>
<u>EXPENSES</u>			
<u>Program Services:</u>			
Community mental health services	\$ 1,953,186	\$ -0-	\$ 1,953,186
Community support program	408,592	-0-	408,592
Total Program Services			
Expenses	<u>\$ 2,361,778</u>	<u>\$ -0-</u>	<u>\$ 2,361,778</u>
<u>Support and Administrative:</u>			
Support	\$ 737,594	\$ 13,694	\$ 751,288
Administrative	415,055	2,735	417,790
Total Support and			
Administrative Expenses	<u>\$ 1,152,649</u>	<u>\$ 16,429</u>	<u>\$ 1,169,078</u>
Total Expenses	<u>\$ 3,514,427</u>	<u>\$ 16,429</u>	<u>\$ 3,530,856</u>
Changes in Net Assets	\$ 37,115	\$ (16,429)	\$ 20,686
<u>Other Changes in Net Assets:</u>			
Property and equipment purchases	(29,799)	29,799	-0-
Net Assets Beginning of Year,			
as restated	192,713	45,087	237,800
Net Assets End of Year	<u>\$ 200,029</u>	<u>\$ 58,457</u>	<u>\$ 258,486</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Community Mental Health	Community Support Program	Total Programs	Support Services	Administrative	Total Support And Administrative	Total
Salaries	\$ 1,507,944	\$ 270,989	\$ 1,778,933	\$ 401,054	\$ 287,878	\$ 688,932	\$ 2,467,865
Payroll taxes	100,045	17,901	117,946	26,419	18,168	44,587	162,533
Group health insurance	159,193	28,485	187,678	42,038	30,893	72,931	260,609
Group disability ins.	7,770	1,390	9,160	2,052	1,919	3,971	13,131
Workmen's Comp insurance	17,135	3,066	20,201	4,525	3,389	7,914	28,115
Group retirement	58,834	10,527	69,361	15,537	10,584	26,121	95,482
Total Salaries and Related Expenses	<u>\$ 1,850,921</u>	<u>\$ 332,358</u>	<u>\$ 2,183,279</u>	<u>\$ 491,625</u>	<u>\$ 352,831</u>	<u>\$ 844,456</u>	<u>\$ 3,027,735</u>
Accounting and legal fees	\$ -0-	\$ -0-	\$ -0-	\$ 11,245	\$ 1,978	\$ 13,223	\$ 13,223
Supplies	21,155	11,303	32,458	25,357	13,073	38,430	70,888
Telephone	4,824	2,491	7,315	17,362	1,265	18,627	25,942
Postage and shipping	360	560	920	15,510	889	16,399	17,319
Occupancy	7,306	27,385	34,691	101,196	-0-	101,196	135,887
Equipment rental and maintenance	309	3,137	3,446	13,639	1,536	15,175	18,621
Printing and publications	427	412	839	842	3,098	3,940	4,779
Travel	6,075	12,081	18,156	1,379	3,796	5,175	23,331
Conferences and staff Development	15,371	1,240	16,611	2,772	6,702	9,474	26,085
Interest	-0-	-0-	-0-	808	-0-	808	808
Advertising	-0-	-0-	-0-	9,840	486	10,326	10,326
Insurance	20,030	8,814	28,844	22,997	403	23,400	52,244
Professional fees	4,287	-0-	4,287	19,927	8,849	28,776	33,063
Dues and licenses	2,658	-0-	2,658	2,275	645	2,920	5,578
Temporary help	2,300	8,738	11,038	820	12,708	13,528	24,566
Intercompany fees	17,163	73	17,236	-0-	6,714	6,714	23,950
Miscellaneous	-0-	-0-	-0-	-0-	82	82	82
	<u>\$ 102,265</u>	<u>\$ 76,234</u>	<u>\$ 178,499</u>	<u>\$ 245,969</u>	<u>\$ 62,224</u>	<u>\$ 308,193</u>	<u>\$ 486,692</u>
Total Expenses Before Depreciation	\$ 1,953,186	\$ 408,592	\$ 2,361,778	\$ 737,594	\$ 415,055	\$ 1,152,649	\$ 3,514,427
Depreciation	-0-	-0-	-0-	13,694	2,735	16,429	16,429
Total Expenses	<u>\$ 1,953,186</u>	<u>\$ 408,592</u>	<u>\$ 2,361,778</u>	<u>\$ 751,288</u>	<u>\$ 417,790</u>	<u>\$ 1,169,078</u>	<u>\$ 3,530,856</u>

See accompanying notes to financial statements.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH--DUBUQUE OFFICE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash Flows From Operating Activities:	
Cash received from patient fees	\$ 2,692,573
Cash received from grants	504,818
Cash received from others	30,812
Cash received from management & personnel cost reimbursements	393,481
Interest received	261
Interest paid	(1,068)
Cash paid to employees and suppliers	(3,528,387)
Net Cash From Operating Activities	<u>\$ 97,490</u>
Cash Flows From Investing Activities:	
Cash purchases of property and equipment	\$ (29,799)
Net Cash Used From Investing Activities	<u>\$ (29,799)</u>
Cash Flows From Financing Activities:	
Principal payments on bank note	\$ (70,787)
Net Cash Used From Financing Activities	<u>\$ (70,787)</u>
Net Decrease in Cash and Equivalents	\$ (3,096)
Cash and Equivalents at Beginning of Year	<u>89,631</u>
Cash and Equivalents at End of Year	<u><u>\$ 86,535</u></u>
Reconciliation of Changes in Net Assets to Net Cash from Operating Activities	
Changes in Net Assets	<u>\$ 20,686</u>
Adjustments:	
Depreciation	\$ 16,429
Changes in Assets and Liabilities:	
Decrease in patient accounts receivable	48,373
Increase in prepaid expenses	(28,510)
Decrease in unearned income	(3,146)
Decrease in grants receivable	26,168
Increase in accounts payable	6,990
Increase in self funded dental insurance deficit	6,683
Increase in accrued salaries	12,380
Decrease in compensated absences	(12,311)
Decrease in accrued interest payable	(260)
Decrease in due from affiliate	4,008
	<u>\$ 76,804</u>
Net cash Used from Operating Activities	<u><u>\$ 97,490</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Gannon Center for Community Mental Health - Dubuque Office is a division of the Gannon Center for Community Mental Health, an Iowa corporation qualifying for exemption from income tax under Section 501 (c) (3) of the Internal Revenue Code. The corporation has five other operating divisions:

Gannon Center for Community Mental Health - Maquoketa Office;
Maquoketa, Iowa
Julien Care Facility; Dubuque, Iowa
Andrew Jackson Care; Bellevue, Iowa
Julien Care Facility - Behavioral Adjustment Unit; Dubuque, Iowa
Gannon Center for Community Mental Health - Clinton Office;
Clinton, Iowa

The information in this report relates to the Gannon Center for Community Mental Health - Dubuque Office.

The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Dubuque County.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Fund - The unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designation within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

Property and Equipment Fund - The property and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of fixed assets providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the property and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2004.

F. Receivables

Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

G. Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of 3-12 years.

H. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation and personal day benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay.

I. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

J. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Total Column

The total column on the balance sheets and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

(2) Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Office Furniture and Equip.	\$ 312,828	\$ 29,799	\$ -0-	\$ 342,627
Leasehold Improvements	<u>4,677</u>	<u>-0-</u>	<u>-0-</u>	<u>4,677</u>
Total	<u>\$ 317,505</u>	<u>\$ 29,799</u>	<u>\$ -0-</u>	<u>\$ 347,304</u>

(3) Retirement Plan

The Organization has a contributory 401(k) retirement plan. Substantially all employees are eligible for the salary deferral portion of the plan while employees must have at least one year of continuous service with 1,000 hours worked to be eligible for the Organization's contribution equal to five percent of the employee's gross salary. Employees are vested immediately on salary deferral contributions. Vesting for the Organization's contributions are stepped at a rate of twenty percent a year. Retirement plan expense for fiscal year ended June 30, 2004 was \$ 95,482.

(4) Lease Agreements

The Gannon Center for Community Mental Health has also entered into a lease agreement with Mercy Medical Center, Dubuque, Iowa for the rental of 12,002 square feet of office space in the Professional Arts Plaza. The lease is for five years commencing on December 1, 1999 and ending on November 30, 2004. As of December 1, 2004, the Center was on a month to month lease with an extension of the original lease being negotiated.

GANNON CENTER FOR COMMUNITY MENTAL HEALTH -- DUBUQUE OFFICE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

(4) Lease Agreements (Continued)

The Gannon Center for Community Mental Health has also entered into an operating lease to lease office equipment. The lease is for 3 years commencing on May 5, 2002 and ending on May 5, 2005.

Rental expense for the year ended June 30, 2004 was \$ 135,887.

A summary of long-term operating leases is as follows:

Year Ending June 30,	Professional Arts Plaza	Equipment Leases	Total
2005	\$ 40,757	\$ 4,577	\$ 45,334
2006	-0-	-0-	-0-
2007	-0-	-0-	-0-
2008	-0-	-0-	-0-
2009	-0-	-0-	-0-
	<u>\$ 40,757</u>	<u>\$ 4,577</u>	<u>\$ 45,334</u>

(5) Line of Credit

The Center has available a \$100,000 line of credit with U.S. Bank, Dubuque, Iowa. The line of credit carries a variable interest rate which is the "prime rate" on commercial loans announced by U.S. Bank of Milwaukee. The line of credit has a minimum interest rate of 0% and a maximum rate of 21%. The rate at June 30, 2004 was 2.4%. There were no advances outstanding at June 30, 2004.

(6) Related Party

The Center was reimbursed \$623,800 for services it provided to related operating divisions.

The Center reimbursed related operating divisions \$244,120 for services provided.

(7) Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

(8) Concentration of Credit Risk:

The Center, and its six divisions, maintain cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2004 the Center, and its six divisions, have uninsured cash balances at one of the institutions.

(9) Self Insurance

The Center is self-insured for its employees' dental care claims. Insurance providers assist the Center in determining its estimated liabilities for these self-insured claims.

(10) Economic Dependence

The Center receives a substantial amount of its support from local county government. A significant reduction in the level of this support, if this were to occur, may have an effect on the Center's programs and activities. A large portion of the Center's revenue from patient fees is paid by third-party reimbursement whereby patients qualify for funding through Title XIX of the federal Social Security Act. Changes in the level of funding for this program could have a considerable effect on the patient's ability to pay for services provided.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors
Gannon Center for Community Mental Health -- Dubuque Office

We have audited the financial statements of Gannon Center for Community Mental Health -- Dubuque Office (a nonprofit organization) as of and for the year ended June 30, 2004 and have issued our report thereon dated January 7, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gannon Center for Community Mental Health -- Dubuque Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gannon Center for Community Mental Health -- Dubuque Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Gannon Center for Community Mental Health -- Dubuque Office in a separate letter dated January 7, 2005.

This report, a public record by law, is intended solely for the information and use of Gannon Center for Community Mental Health -- Dubuque Office, and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa
January 7, 2005